

VZCZCXRO0085  
OO RUEHBI RUEHCI RUEHLH RUEHPW  
DE RUEHNE #4200/01 1661141  
ZNY CCCCC ZZH  
O 151141Z JUN 06  
FM AMEMBASSY NEW DELHI  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 5320  
INFO RUEHBJ/AMEMBASSY BEIJING 2520  
RUEHLM/AMEMBASSY COLOMBO 5838  
RUEHKA/AMEMBASSY DHAKA 5848  
RUEHIL/AMEMBASSY ISLAMABAD 8849  
RUEHKT/AMEMBASSY KATHMANDU 6522  
RUEHMO/AMEMBASSY MOSCOW 8853  
RUEHKO/AMEMBASSY TOKYO 3453  
RUEHCI/AMCONSUL CALCUTTA 4682  
RUEHCG/AMCONSUL CHENNAI 4635  
RUEHKP/AMCONSUL KARACHI 4340  
RUEHLH/AMCONSUL LAHORE 2728  
RUEHBI/AMCONSUL MUMBAI 3877  
RUEHPW/AMCONSUL PESHAWAR 3379  
RUEHC/DEPT OF LABOR WASHDC  
RHEHNSC/NSC WASHDC  
RUCPDO/DEPT OF COMMERCE WASHDC  
RUEIDN/DNI WASHINGTON DC  
RHEBAAA/DEPT OF ENERGY WASHINGTON DC  
RHHMUNA/CDR USPACOM HONOLULU HI  
RUCNDT/USMISSION USUN NEW YORK 1203  
RHMFISS/HQ USCENCOM MACDILL AFB FL  
RUEHGV/USMISSION GENEVA 3495  
RHHMUNA/HQ USPACOM HONOLULU HI  
RHMFISS/HQ USSOCOM MACDILL AFB FL  
RUEKJCS/JOINT STAFF WASHDC

C O N F I D E N T I A L SECTION 01 OF 04 NEW DELHI 004200

SIPDIS

SIPDIS

E.O. 12958: DECL: 06/15/2016  
TAGS: [PGOV](#) [PINR](#) [ECON](#) [EINV](#) [EFIN](#) [ELAB](#) [EPET](#) [ENRG](#) [IN](#)  
SUBJECT: CONGRESS ON THE DEFENSIVE WITHIN ITS COALITION  
OVER PETROLEUM PRICE HIKES

REF: NEW DELHI 4062

Classified By: A/PolCouns Atul Keshap for reasons 1.4 (B,D)

¶1. (C) Summary: Congress is feeling increasingly isolated, as regional parties nominally part of the UPA openly join BJP and Left Front (LF) protests against the recent petroleum product price hikes. The Prime Minister on June 7 asked the Ministry of Petroleum and Natural Gas (MPNG),s Secretary to stand firm on its decision to raise the government-administered price of gasoline (petrol) price by 4.0 rupees (USD 0.09) per liter and diesel by 3.0 rupees (USD 0.07) per liter (septel). The Administered price of LPG (liquid petroleum gas) and kerosene were not raised and those are consumed in many Indian homes as cooking fuel. A June 13 "nationwide agitation" organized by the CPI(M) involved not only the LF allies but key regional parties. In Uttar Pradesh (UP) the regional Samajwadi Party (SP) worked closely with the Left to sponsor a statewide protest. In India, two thirds of the population barely survive on two dollars a day or less and price rises cut deeply and quickly lead to popular protests that can bedevil governments. The petroleum product administered-price hikes quickly induced merchants to raise the open-market prices for staples such as rice, flour, and onions upon which the poor rely. Reeling from the President's rejection of its "offices of profit" bill and the controversy over its reservation policy, Congress is behaving more like a party struggling to consolidate slipping support among key coalition members than a party in solid control. Meanwhile, the fuel controls imposed by the state not only cause political headaches but cost the taxpayer USD 19 billion in 2005 that could have gone to health or education. End Summary.

## The Left Calls a Strike

---

12. (U) Although it ostensibly supports the UPA coalitions, the Communist Party of India Marxist (CPI-M) organized a nationwide "day of protest" on June 13 in support of its demand for an immediate "rollback" of UPA price hikes on petroleum and diesel. In addition to the parties of the Left Front (LF) the CPI(M) enlisted the following regional parties: the Samajwadi Party (SP) of Uttar Pradesh (UP), the Telegu Desam of Andhra Pradesh (AP), the Rashtriya Lok Dol (RLD) of Bihar and the Janata Dal Secular of Karnataka. The entire LF leadership participated in an anti-UPA rally in New Delhi and, along with about 1,000 party members, were briefly detained by police.

## And Raises the Rhetoric Level

---

13. (U) In his address to the rally, CPI(M) General Secretary Prakash Karat railed against the "anti-people" policies of the UPA and ridiculed attempts by Congress-ruled states to alleviate the burden of price increases by reducing state sales taxes on the additional charges. Karat emphasized that only New Delhi could help the common man adjust to spiraling petroleum product prices by restructuring excise and customs duties. Communist Party of India (CPI) General Secretary AB Bardhan warned that petroleum product price increases would have a "cascading effect on the prices of other essential commodities," and cautioned Congress not to allow the

NEW DELHI 00004200 002 OF 004

situation to "spin out of control," or it would have to "face the peoples' wrath."

## Transporters Join In

---

14. (U) Although nominally "apolitical" the All-India Motor Transport Congress (AIMTC) called a 24 hour strike between June 12-13. AIMTC leaders supported the CPI(M) demands for a price rollback, kept their vehicles off the roads in key states, blocked highway traffic, and burnt effigies of Petroleum Minister Murli Deora, Prime Minister Manmohan Singh and Congress President Sonia Gandhi. The union promised that if the GOI did not immediately "rollback" petroleum prices, it would call for an "indefinite" strike. The AIMTC leadership derided efforts by Congress-ruled states to cut their sales taxes on the petroleum increases, saying that such measures would not begin to offset the rupees 10 USD 0.22 increase per liter in the cost of diesel they have been forced to absorb since the UPA came to power in 2004. The union blamed New Delhi for the price increases, pointing out that "the tax component alone accounts for 54 percent of the retail price of the fuel," and that diesel is cheaper in China, Pakistan, Sri Lanka, Bangladesh and Nepal, even though those countries buy their fuel from the same sources as India.

## The UP Government Sponsors a Strike

---

15. (U) In UP, the governing SP (ironically also ostensibly supporting the UPA at the center) sponsored blockades of rail and highway traffic and rallies and protest marches throughout the state. SP protesters stopped key trains for up to four hours and closed the Allahabad-Varanasi highway for much of the day. SP General Secretary Amar Singh ridiculed Sonia Gandhi, asking how PM Singh could countenance petroleum price increases despite her repeated objections. He pledged that the SP government in UP would not follow Congress states and eliminate its sales taxes on petroleum increases, as it would "have a debilitating effect on development schemes." Singh praised the CPI(M) for its "consistent support" of the SP and declared that the

successful strike was the result of close coordination between Prakash Karat and the UP Chief Minister Mulayam Singh Yadav. Note: An odd set of ostensibly socialist bed fellows both of whom give Sonia Gandhi fits. End note.

#### As Does the New Kerala Government

-----

16. (U) In Kerala, the newly-elected Left government sponsored a dawn-to-dusk strike that was almost universally observed. Congen Chennai confirmed press reports that roads throughout the state were deserted. The Kerala State Road Transport Corporation (KSRTC) and taxi and autorickshaw operators kept their vehicles off the road. Shops and businesses were closed, most government workers stayed home, and union workers staged anti-UPA protests in most district headquarters. Kanam Rajendran, the State Secretary of the CPI-affiliated All India Trade Union Congress (AITUC) promised even "stronger agitations" if the UPA did not cease its "anti-people" policies.

#### Less Success in Other States

NEW DELHI 00004200 003 OF 004

-----

17. (U) In Chennai about 1,000 Left demonstrators snarled traffic on the city's main road for about two hours and damaged several vehicles. CPI General Secretary D Raja and state leaders of the LF parties were briefly detained after picketing government offices. There was a brief LF demonstration in Bangalore, but police told Congen Chennai that it "quickly lost steam." Telegu Desam President N Chandrabablu Naidu took part in a small non-violent demonstration in Hyderabad that resulted in 100 arrests. The LF also staged small demonstrations in Punjab, Haryana and Madhya Pradesh. Ironically, and proving once again that the Bengali Marxists rarely take the medicine their party prescribes for others, the CPI(M) government in West Bengal did not call for a shut-down, preferring to stage symbolic protest demonstrations in front of public sector oil company offices in Calcutta.

#### Congress States Announce Their Own "Rollbacks"

-----

18. (U) One rupee equals about 2.2 US cents. Although the GOI in 2005 sustained a massive USD 19 billion fuel revenue shortfall due to rising oil prices, the GOI has modestly raised the price of gasoline by 4.0 rupees per liter and the price of diesel by 3.0 rupees per liter to try and shrink the gap. On June 13, Congress governments in the states of Delhi, Haryana and Uttaranchal announced that they would not charge state sales taxes on the modest petroleum price increases. In Delhi, this token gesture would reduce the price of petroleum by the devisory sums of rupees 0.67 and diesel by rupees 0.22. It would reduce tax revenue in the state by USD 28 million per year. The local truckers association announced that it was "unimpressed" by the "rollback" and that it had already increased its transportation charges by between six and 10 percent to cover the fuel price hikes, and these increased transportation charges have already begun to result in increased prices throughout the economy. The measures in Haryana would reduce the price of gasoline by rupees 0.67 per liter and diesel by rupees 0.21 per liter and cost the state government USD 23.8 million. Uttaranchal will reduce the price of gasoline by rupees 0.75 per liter and diesel by rupees 0.38 per liter.

#### BJP to Left: Get Off My Turf

-----

19. (U) BJP leader Venkaiah Naidu maintained on June 13 that his party would not "allow the Left to occupy the opposition space," and charged the LF with "duplicity" for supporting the UPA while opposing its economic policies on the streets.

Naidu announced that the BJP would sponsor its own "nationwide agitation" against petroleum price increases on June 19. BJP state leaders will be required to organize and lead the protests and the entire party leadership will participate. On June 21, the BJP General secretaries plan to review the success of the agitation and announce further actions if the UPA has not "rolled back" the price increases.

Comment: Congress Party Beset From All Sides  
-----

¶10. (C) Over two-thirds of the Indian population barely

NEW DELHI 00004200 004 OF 004

survives on an income of two dollars a day or less. Although a large percentage of the population does not directly consume gasoline or diesel, the markets have anticipated the cost impact of the price rise in petroleum product inputs for agricultural goods. Thus, the price rises have already begun to filter throughout the economy and raised the price of essential commodities (flour, potatoes, onions, rice, chilies) that the poor rely on. With no margin of disposable income, price rises cut deep into the family budget, causing many families to reduce their already meager diets and face increased malnutrition. There is increasing unease and anger throughout society about price rises, with the middle class also directly affected by the price of fuel that increases the cost of operating their vehicles. With such a large percentage of the population living on the economic margin, any price increases can result in seismic shocks to the political system. Indian governments have routinely fallen over price increases in basic dietary staples. Interestingly, nobody has asked why petrol price controls even exist, even though they cost the treasury USD 19 billion last year, which could have gone to health or education.

¶11. (C) Congress is reeling from other political setbacks, including the President's rejection of its "offices of profit" bill and the controversy over its reservation policy, and there are growing cracks in the wobbly UPA coalition. Restive regional parties that nominally belong to the UPA are openly joining the agitations of the LF and BJP, which specifically target Congress rather than the UPA. The price increases are a pocketbook issue that allow the Left and Right to mobilize the common man against the government. Congress is itself divided. Key leaders (including Sonia Gandhi) have opposed the price hikes, criticized the way they have been handled, or urged Congress to capitulate to the LF's demands for a "rollback," and the party is finding it difficult to speak with one voice.

¶12. (C) Although technically, Congress does not have to face the voters until the 2009 scheduled Parliamentary elections and the electoral face-off in UP is not until March 2007, there is growing fear that a growing wave of defections by regional parties from the UPA could pose a challenge to its stability. This is causing Congress increasingly to turn to the defensive and to act more like a party fighting for coalition discipline than one solidly in control in New Delhi.

¶13. (U) Visit New Delhi's Classified Website:  
(<http://www.state.sgov.gov/p/sa/newdelhi/>)  
MULFORD